BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA DISTRICT. 01-18-08 04:59 PM

Order Instituting Rulemaking to Implement the Commission's Procurement Incentive Framework and to Examine the Integration of Greenhouse Gas Emissions Standards into Procurement Policies.

R.06-04-009 (Filed April 13, 2006)

REPLY COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON THE ADMINISTRATIVE LAW JUDGES' RULING ON MODELING RELATED ISSUES

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I. INTRODUCTION

Pursuant to the November 9, 2007 "Administrative Law Judges' Ruling Requesting Comments on Modeling Related Issues" (ALJ Ruling), the Division of Ratepayer Advocates (DRA) submits the following reply comments on modeling related issues for greenhouse gas (GHG) reductions in the electricity and natural gas sectors.

Sixteen parties submitted opening comments on the E3 GHG model. The comments covered a wide range of issues, from general concerns on inclusion of specific players and technologies, to more detailed comments on specific data and methods. DRA focuses its reply comments on the following topics: (1) presentation of model results, (2) usability features, (3) the need for focus groups to address more fully some remaining data controversies, (4) inclusion of the most accurate available data for all entities, including publicly-owned utilities, and (4) the refinement of Phase II goals.

¹ Administrative Law Judges' Ruling Requesting Comments on Modeling Related Issues (ALJ Ruling), November 9, 2007.

II. DISCUSSION

A. DRA supports the addition of output metrics to facilitate the interpretation of the model results.

Green Power Institute (GPI) and Pacific Gas and Electric Company (PG&E) recommended enhancements to the E3 model output. Specifically, GPI requested modification of the model to allow users to compare different scenarios at the same time,² while PG&E recommended that the model provide GHG emissions reduction cost curve (in \$/ton of CO2 reductions) for each measure, rather than for each scenario in aggregate.³ DRA supports both suggestions to facilitate the interpretation of model output by the California Public Utilities Commission (CPUC), the California Energy Commission (CEC) and the Air Resources Board (ARB).

In addition to the changes requested by GPI and PG&E, DRA recommends that E3 add output metrics representing the cost impacts and CO2 reductions associated with each user case⁴ relative to a business-as-usual (BAU) scenario for both the electricity and the natural gas sectors. DRA agrees with the observation that the "goal of Stage 1 is to inform the CPUC record of the costs of meeting a sector cap set at different levels of CO2e," yet there is currently no easily discernible view of the total CO2 reductions for each of the electricity and natural gas sectors, and the associated costs at the sector level for each user case. DRA therefore recommends that the Summary Results in the Main Tab of the GHG model include the following metrics: "Total CO2 reduction in 2020 relative to a business-as-usual scenario," "Total incremental cost relative to a business-as-usual scenario", and "\$/tonne of CO2 reduction." These metrics would assist the

² GPI opening comments, p. 6.

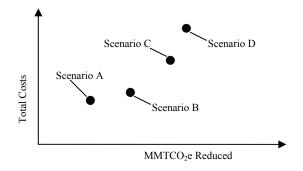
³ PG&E opening comments, p.3.

 $[\]frac{4}{2}$ Within the E3 GHG model, each user case represents a bundle of emission reduction strategies with resource-specific costs and deployment assumptions.

⁵ E3, "Documentation Overview," p. 1. Available at http://www.ethree.com/GHG/1%20Documentation%20Overview%20v4.doc.

CPUC, CEC and the ARB as they continue to identify cost-effective GHG reduction strategies within sectors and the emission cap level for each sector.

Additionally, DRA suggests that E3 combine the output from multiple-user cases into a single graphical format. At a minimum, the user cases should represent the following scenarios: (A) BAU energy efficiency + BAU renewables; (B) BAU energy efficiency + aggressive renewables; (C) aggressive energy efficiency + BAU renewables; (D) aggressive energy efficiency + aggressive renewables, and (E) aggressive energy efficiency + aggressive renewables with market transformation for solar PV. DRA expects that the result might resemble the following figure:



Alternatively, the plot could replace the y-axis with "\$ per tonne of CO2 reduction" while keeping the x-axis as "MMTCO2e reduced." These types of summary graphs would be very useful in illustrating the different costs and reductions associated with a variety of policy option combinations. Ideally, the modeling exercise should provide an estimate of total costs of emissions reductions under alternative policy scenarios, as well as the marginal cost of additional reductions generated by each policy program or scenario. This would hopefully give policymakers a succinct comparative view of the costs of meeting the goals of AB 32 under the various combinations of policy tools at their disposal.

B. DRA agrees with suggested improvement to make the E3 GHG model easier to use.

Several parties suggested improvements that would make the E3 model more user-friendly. Southern California Edison Company (SCE), Independent Energy Producers (IEP), the Sacramento Municipal Utility District (SMUD), and the Western Power Trading Forum and the Southern California Public Power Authority requested additional documentation to make the model more transparent and easier to use. DRA supports these requests. Specifically, E3 could consider adding brief text boxes on each page explaining the purpose of the page, the purpose of each table and other pertinent information in order to help step users through the model. Although a GHG calculator reference guide is currently provided in a separate Word document, integration of this documentation directly in the model would enhance the transparency and user-friendliness of the model and should be relatively simple to add.

C. DRA supports the use of working groups to allow stakeholders to discuss, and to the extent possible, reach consensus on input assumptions.

DRA notes that the opening comments showed wide a divergence of opinion regarding the accuracy of many of the cost assumptions. For example, while PG&E estimated that the energy efficiency (EE) program costs to achieve 100% of EE economic potential are too low, the National Resources Defense Council (NRDC) and the Union of Concerned Scientists (UCS) commented that the model assumptions for EE administrative and programmatic costs are too high. Similarly, SMUD commented that

⁶ SCE opening comments, p. 6.

 $[\]frac{7}{2}$ IEP opening comments, p. 2.

⁸ SMUD opening comments, p. 6.

⁹ Western Power Trading Forum opening comments, p. 7.

¹⁰ SCPPA opening comments, p. 12.

¹¹ PG&E opening comments, p. 8.

¹² NRDC/UCS opening comments, p. 8-9.

the solar costs appear too low¹³ while the Solar Alliance expects that PV costs, especially for large-scale photo voltaic (PV) projects, will decline significantly, driven by continued investments in PV by Japan and the European Union.¹⁴

The model currently accommodates a high degree of flexibility to allow users to change input assumptions. While DRA appreciates the level of transparency afforded by the model, it could be a potential source of confusion when parties compare model results based on different input data. To ensure a common starting point for the cases being analyzed, parties should be afforded an interactive opportunity to discuss and, to the extent possible, reach a consensus on model input assumptions.

At the November 14, 2007 workshop, E3 staff suggested convening working groups so that interested stakeholders could confer on model input assumptions. DRA supports this idea and recommends that E3 organize a series of web-based meetings over the next few weeks with the following suggested topics: (1) input assumptions for EE, (2) input assumptions for wind, (3) input assumptions including market transformation effects for solar technologies, (4) input assumptions including market transformation effects for integrated gasification combined cycle (IGCC), and (5) input assumptions for Combine Heat and Power (CHP). Results of the model using revised data input should be posted on the E3 website.

D. The model should be revised to reflect expected GHG reductions from publicly-owned utilities.

SMUD raised several concerns with the accuracy of the E3 model's use of inputs reflecting SMUD's resources and load. According to SMUD, there are errors related to SMUD's carbon emissions, attribution of its renewable portfolio standard contracts and its energy efficiency gains. SMUD contends that similar erroneous inputs were used for

¹³ SMUD opening comments, p. 8.

¹⁴ Solar Alliance opening comments, p.3.

¹⁵ SMUD opening comments. p. 1.

other publicly-owned utilities. ¹⁶ If there is more accurate data, as SMUD contends, it should be incorporated as promptly as possible, and other entities should be encouraged to point out appropriate corrections to inputs relating to their resources. ¹⁷ The most accurate, complete up-to-date information would make the model a better tool for everyone.

E. The Stage 2 goals of CPUC GHG modeling should be refined to avoid duplicating the ARB modeling work.

In the CPUC GHG Modeling Overview document dated October 31, 2007, E3 explained that Stage 2 of the modeling project will focus on modeling policy options to implement AB32 in the electricity and natural gas sectors including entity-specific allocations and flexibility mechanisms including emissions trading. "The goal of Stage 2 is to identify low-cost and/or easier to implement approaches to meet the AB32 goal in the electricity and natural gas sectors." 18

DRA expects that under an emissions trading scenario, the electricity and natural gas sectors will be part of a multi-sector emissions trading market. Without a deeper understanding of the other sectors and their emission reduction economics, it might be premature to go through an in-depth exercise to determine the cost impacts of AB32 compliance at the utility level. This might also duplicate the work undertaken by the Air Resource Board as part of its economy-wide modeling exercise. DRA recommends that E3 staff clarify and/or refine their plans for Stage 2 of the modeling project that takes into account the ARB modeling work as well as the point of regulation and/or allowance allocation methodology to be adopted in the upcoming Joint CPUC/CEC decision.

 $[\]frac{16}{10}$ SMUD contends that there are similar errors in some of the inputs used for other publicly owned utilities.

¹⁷ The Los Angeles Department of Water and Power (LADWP) notes in its opening comments that it informed E3 staff about errors relating to assignment of some generator contracts. LADWP Opening Comments, p. 12.

¹⁸ CPUC GHG Modeling Overview document, p.1.

III. CONCLUSION

For the foregoing reasons, the CPUC and CEC should adopt DRA's recommendations on modeling issues as set forth herein.

Respectfully submitted,

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January 18, 2008

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I hereby certify that I have this day served a copy of "REPLY

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Executed on January 18, 2008 at San Francisco, California.

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